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Internal audit and oversight

Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2009, including its implementation of Executive Board decision 2008/37. As requested by the Board in its decision 2009/15, the report contains comprehensive information on disclosure of internal audit reports to Member States and a multi-year comparison of trends in audit issues. Also, as requested in decision 2006/13, the management response to this report is presented separately. In accordance with the approved oversight policy (DP/2008/16/Rev.1), the annual report of the Audit Advisory Committee is appended to the present report.

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) acknowledge OAI compliance with decision 2008/37 on the disclosure of internal audit reports; (c) express its continuing support to strengthen the internal audit and investigation functions of UNDP; and (d) take note of the annual report of the Audit Advisory Committee.

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Annex (available on the Executive Board web page)

High-priority recommendations unresolved for 18 months or more

Appendix (available on the Executive Board web page)

Annual report of the Audit Advisory Committee for the calendar year 2009

Introduction

1. The UNDP Office of Audit and Investigations (OAI) submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2009, including its implementation of decision 2008/37.

2. As requested by the Board in decision 2009/15, the report contains comprehensive information on disclosure of internal audit reports to Member States and a multi-year comparison of trends in audit issues. As requested in decision 2006/13, the management response to this report is presented separately. In accordance with the approved oversight policy (DP/2008/16/Rev.1), the annual report of the Audit Advisory Committee (AAC) is appended to the present report.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

3. The institutional arrangements for the independent internal oversight of UNDP are comprised of OAI, the Evaluation Office, and the Ethics Office (DP/2008/16/Rev.1). OAI is specifically mandated to provide internal audit and investigation services. The Director of OAI is directly accountable to the Administrator and independently submits to the Board an annual report including a summary of OAI observations and recommendations. As described in its charter approved by the Administrator, OAI assesses the effectiveness of risk management, the adequacy and effectiveness of controls and governance processes of UNDP, and provides reasonable assurance to the Administrator regarding the reliability and integrity of financial, managerial, and operational information. It also assesses effectiveness and efficiency of operations, the safeguarding of assets, and compliance with legislative mandates, regulations, rules, policies and procedures.

4. To continually ensure its effectiveness in carrying out its mandate, OAI implements a quality assurance and improvement programme. In 2009, OAI was independently validated to be in general conformance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics established by the Institute of Internal Auditors. OAI was also independently assessed as being in overall conformity with generally accepted principles and standards for investigations in international organizations.

5. As part of the institutional arrangements of UNDP for independent external oversight, its AAC, consisting of five independent and external experts, continued to review the strategy, annual workplan, budget, and annual report of OAI, and provided advice to promote the effectiveness of internal audit and investigation functions in UNDP. Similarly, as part of independent external oversight, the United Nations Board of Auditors (BOA), also reviewed OAI operations in connection with the biennial audit of BOA in 2008. In 2009, BOA assessed the OAI review process for audits conducted by appointed auditors of projects implemented by non-governmental organizations (NGOs) and/or national governments (known as NGO/NIM projects), as well as the OAI audit of global payroll. These reviews are done continually to allow BOA to determine the level of confidence and reliance that it can place on the work of OAI.

6. To enhance UNDP staff awareness of the internal audit and investigation functions, OAI participated in various forums in 2009, such as regional cluster meetings, resident representative/resident coordinator induction workshops, and operation manager workshops to present OAI activities and share lessons learned from audits and investigations. OAI has also issued two flyers, in all three UNDP working languages, about OAI functions, and on how to report wrongdoing.

7. OAI continued to liaise externally with its counterparts as an effective way of identifying and sharing best practices and discussing matters of common interest and promoting cooperation with other audit and investigation services in the United Nations system and elsewhere. From

30 September to 2 October 2009, OAI successfully hosted the 40th meeting of the Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Associated International Organizations (RIAS) in Kuala Lumpur, Malaysia. The Director of OAI assumed the chairmanship of RIAS for one year and will serve as the spokesperson of the United Nations internal audit services at the High-level Committee on Management. OAI also chaired the United Nations internal audit operational group, dealing with audit issues related to 'delivering as one' countries, multi-donor trust funds, and other joint initiatives. OAI took a lead role in the coordinated audit of the Sudan Common Humanitarian Fund, which was part of the 2009 workplan for this sub-group, and was conducted in accordance with the Framework for Auditing Multi-Donor Trust Funds. In April 2009, OAI participated in the annual meeting of the Financial and Administrative Framework Agreement working group. As an active member of the Conference of International Investigators, OAI participated in the 10th conference in June 2009, which led to the adoption of a revised set of principles and guidelines for investigations, applicable in international organizations.

Basis for providing independent assurance

8. In January 2009, the Administrator approved the OAI three-year strategy for 2009 to 2011, which takes into account, inter alia, the UNDP oversight policy as part of the accountability system of UNDP, which was approved by the Board at its second regular session 2008. The strategy is aligned with the results-based management framework of UNDP, in that it articulates how OAI will contribute to the achievement of corporate results. To achieve the goal of providing independent assurance, the strategy describes how OAI audits shall cover an appropriate mix of business units, functions and activities at the UNDP corporate, regional, and country levels, including projects directly implemented by UNDP – known as direct implementation modality (DIM) projects. This mix of work was completely accounted for in the 2009 annual workplan, which was reviewed by the AAC in December 2008 and approved by the Administrator in January 2009.

9. As encouraged by the Executive Board in decision 2009/15, OAI expanded coverage of headquarters units. In 2009, OAI issued 71 audit reports[1] – eight were headquarters audits, and 63 country office[2] audits (see figure 1). The eight headquarters audit reports included three consolidated reports on audit 'thrust areas' covered during country office audits, namely: procurement, safety and security, and advances for NGO/NIM projects. The 63 country office audits comprised 36 comprehensive office audits, 11 audits of DIM projects, six follow-up audits, four audits of projects funded by the Global Fund to Fight AIDS, Tuberculosis and Malaria, three audits focused on country office procurement function, and three special audits (see figure 2).

10. Since most of the audit reports issued in 2009 covered operations and activities of UNDP offices during 2008, the audit outcomes generally reflect the status of operations in 2008. The 63 country office audits accounted for about $1.94 billion (45 per cent) of the $4.34 billion in expenditures that UNDP incurred at the field level in 2008, as recorded in the UNDP enterprise resource planning system, Atlas. Country office audits and headquarters audits thus represented a solid supplement to the other oversight mechanisms from which the Administrator and the Board derive assurance on the efficient use of UNDP resources, and the effectiveness and adequacy of governance, risk management, and internal control processes.

[1] In total, OAI issued 73 audit reports during 2009, including two audit reports pertaining to the United Nations Development Fund for Women (UNIFEM). See chapter IX of this report.

[2] For purposes of this report, the term 'country office' encompasses all field-based units.

Figure 1. OAI reports issued in 2009

Location	Audit subject / UNDP office
Headquarters, New York	Global projects, internal control framework, Regional Bureau for Africa, Regional Bureau for Arab States, United Nations Capital Development Fund (UNCDF) Consolidated reports on audit thrust areas: NIM/MAG advances, procurement, safety and security
Africa	Office: Burkina Faso, Gabon, Malawi, Mauritania, Nigeria, Swaziland Follow-up: Burundi, Central Africa Republic, Mauritius Global Fund projects: Angola, Democratic Republic of the Congo Procurement: Liberia Special: Democratic Republic of the Congo
Asia and the Pacific	Office: Afghanistan, Cambodia, China, Fiji (multi-country office), Indonesia, Lao, Mongolia, Myanmar, Nepal, Republic of Korea, Timor-Leste Follow-up: Malaysia DIM projects: Afghanistan, Nepal, Pacific Centre, Pakistan, Sri Lanka, Thailand, Timor-Leste Special: Afghanistan, United States Agency for International Development (USAID)-funded projects
Arab States	Office: Egypt, Programme of Assistance to the Palestinian People (cash and technical support), Somalia, Sudan (North), Sudan (South), Tunisia, Yemen DIM projects: Programme of Assistance to the Palestinian People Global Fund projects: Sudan (North), Sudan (South) Special: Sudan, Resident Coordinator Office
Europe and the Commonwealth of Independent States	Office: Kazakhstan, Lithuania, Macedonia, Montenegro, Poland, Romania, Russian Federation Follow-up: Azerbaijan
Latin America and the Caribbean	Office: Ecuador, El Salvador, Guatemala, Nicaragua Follow-up: Jamaica DIM projects: Guatemala, Nicaragua Procurement: Honduras, Venezuela

[illegible] [illegible] [illegible] [

Figure 2. Number of audit reports issued in 2009

II. Disclosure of internal audit reports

[illegible] The UNDP oversight policy, and the ensuing decision 2008/37, recognizes the confidential nature of internal audit reports and provides a set of minimum conditions that need to be satisfied when disclosure of such reports is requested by a Member State. OAI has established internal standard operating procedures for handling disclosure requests to ensure that any action taken is in full compliance with this policy.

[illegible] OAI makes available to any requesting Member State a quarterly list of audit reports issued before the adoption of decision 2008/37. OAI received six different disclosure requests, two from the Government of the United States of America, and one from the Government of Cuba. In response to these requests, access to 14 internal audit reports was granted, on OAI premises in New York and under conditions of confidentiality. Access to one report was withheld for reasons of confidentiality. The reports from the Government of Cuba had to be delivered, as the audit report in question had not yet been finalized at the time of receiving the request. The reports on the following UNDP offices have been disclosed so far:

(a) Afghanistan
(b) Afghanistan – special audit of UNDP-funded projects
(c) Cambodia
(d) Cameroon
(e) Democratic Republic of the Congo
(f) Democratic Republic of the Congo – Global Fund grants
(g) Guatemala – 2010 Projects
(h) Haiti
(i) Honduras – 2010 Projects
(j) Kosovo
(k) Regional Bureau for Africa
(l) Somalia
(m) Sudan Khartoum office
(n) Sudan Khartoum office – Global Fund grants

[illegible] As was with decision 2008/37, OAI, through the Executive Board secretariat, informed the Board of all these requests immediately after receipt, and prior to any disclosure. Upon receipt of a request, OAI verified whether the reason and purpose for requesting the report were adequately stated, and whether the request contained an explicit confirmation of the

commitment to confidentiality. In addition, OAI informed the Governments concerned of the disclosure request through a letter addressed to the respective Permanent Representative to the United Nations. Governments were given adequate time to view and comment on the report. Most of the Governments concerned made use of the opportunity to read the report in OAI premises in New York, and showed interest in the assessment by OAI of the UNDP office in their respective countries. After viewing the report, no Government raised an objection to disclosing it to the requester.

14. Prior to disclosure, the requested reports are independently reviewed by two people – normally the chief of the regional audit centre concerned, and the OAI Director or Deputy Director – to determine whether they contain "…certain information deemed particularly sensitive that relates to third parties or a country, Government or administration, or could compromise pending action, or where such is likely to endanger the safety and security of any individual, violate his or her rights or invade his or her privacy" so that the report would have to be redacted, or in extraordinary circumstances, withheld.

15. OAI determined that some of the reports requested contained particularly sensitive information that should have required redacting. However, in one case, OAI decided to withhold a report requested in view of an ongoing investigation; redacting that report was not suitable.

16. In all instances, OAI kept the UNDP OAI informed through the quarterly progress reports that were discussed during the briefing sessions with the AAC.

17. Two organizations of UNDP – the European Union and UNIFEM – who are not Member States – approached OAI for access to internal audit reports. In line with the decision taken by the Executive Board, OAI provides for disclosure to Member States only, not to donors. In fact, OAI has consistently declined such access to donors. The governing body of the United Fund has approached the President of the Bureau of the UNDP/UNFPA Executive Board on this issue. Discussions with the United Fund are ongoing to find suitable alternatives to satisfy its assurance and information needs.

III. Risk-based audit planning

18. OAI audit plans are risk-based and consistent with the goals of UNDP. Considering the decentralized operations of the organization and the variety of functions carried out by its various business units, OAI uses different risk assessment methodologies, as appropriate. The risk assessment model for selecting country offices for audit includes qualitative and quantitative factors, some of which are assessed by OAI and some by the regional bureaux with input from their respective country offices. The exercise results in four risk rankings of offices: high, medium-high, medium-low, and low risk. OAI aims at auditing these offices every two, three, four and five years, respectively. Overall, the method results in an average of some 31 comprehensive country office audits per year. Since the introduction of risk-based audit planning in 2005, OAI has closed the gap in previous years and managed to audit all offices.

19. Unlike the risk assessment for country office audits, an audit risk assessment for headquarters units cannot be based on a standardized risk assessment model with predetermined quantitative and qualitative factors. The risk assessment methodology is thus customized for each major headquarters unit and generally conducted through interviews and facilitated audit risk assessment workshops with managers. The workshop results form the basis for analysing the audit universe and prioritizing possible audit assignments for a short- to medium-term audit plan. An audit risk assessment exercise was done for the Bureau of Management in 2006, and a similar exercise was performed for the Partnerships Bureau in 2007.

20. Notwithstanding the results of these audit risk assessments, for 2007 OAI worldwide consensus decided, with some [illegible] per cent of its resources unallocated to any unit, in order to adapt to emerging risks and shifting priorities during the year.

IV. Staffing and budget

21. OAI continued to face staffing and budget challenges during the year. As of 31 December 2009, OAI had 66 approved posts, including two posts dedicated to the audit of Global Fund projects and one post funded by UNDEM. Out of the 66 posts, 58 posts were encumbered, six posts were vacant (one at headquarters and five in the regional audit centres) and two posts were temporarily frozen due to budgetary constraints. Four of the six posts became vacant in 2009 due to staff movements and attrition, while one post remained vacant in 2009 after two unfruitful rounds of recruitment. On average, posts remained vacant for seven months.

22. In 2009, OAI had an approved overall budget of $12 million, with a slight increase in staffing costs over 2008. Out of this budget, $2.2 million (17 per cent) was allocated to the investigation function. In the 2008-2009 biennium, 80 per cent of funding was received from the regular resources of UNDP, and the balance from other (non-core) resources.

23. A projected funding shortfall in the other resources of UNDP also affected OAI, as it was required to reduce its funding needs from these resources by $1.38 million over a four-year period, from 2009 to 2012. In 2009, OAI managed to generate total savings of close to $0.9 million. This was partly due to process improvements, reducing expenses on consultancies and travel, and temporarily freezing a vacant audit specialist post at headquarters. The savings achieved in 2009 significantly exceeded the annual target and will help alleviate the effect of the expected budget reductions in future years.

V. Significant internal audit results

A. Headquarters audits

24. Except for the three consolidated reports on audit issues mentioned in chapter II, country office audits, OAI issued five reports on the audits of the Regional Bureau for Arab States, the Regional Bureau for Africa, global projects managed by the Bureau for Development Policy and the UNCDF, as well as the desk review of the internal control framework. The results are summarized as follows:

(a) *Regional Bureau for Arab States (March 2009).* Information and communication within, to and from the Bureau, as well as monitoring and oversight of country operations by its country office division were satisfactory. However, there was room for improvement in governance and strategic management, human resources management and programme activities. Recommendations were issued to address concerns in these areas including reassessing the adequacy of structure and workforce alignment of the Bureau, establishing clear consultation with country offices at an early stage for regional programming and enhancing oversight and monitoring of regional projects. By 31 December 2009, 10 of the 12 recommendations were fully implemented.

(b) *Regional Bureau for Africa (July 2009).* A number of weaknesses were noted in the organizational structure of the Bureau, its governance and management of regional programmes. Recommendations included establishing function-wide coordination and networks at headquarters and between the headquarters and African sub-regional offices, developing structured internal communication, and strengthening the governance and management mechanisms, planning and reporting processes, and the monitoring and oversight of regional programmes. By 31 December 2009, all 21 recommendations were fully implemented.

(c) *Global projects managed by the Bureau for Development Policy (August 2009).* The areas of governance and strategic management, partnership and resource mobilization, human resources management, financial management and procurement were satisfactory. However, recommendations were made to enhance global programme and project management, such as setting up projects, benchmarking outcomes and project boards, describing clear project

management arrangements (including outcome indicators, benchmarks and targets in project documents), and preparing complete evaluation plans. By 31 December 2009, seven of the 15 recommendations were fully implemented, while all others were in the process of being implemented.

(d) *United Nations Capital Development Fund* (August 2009). UNCDF was established in 1966 by the General Assembly with a unique mandate to provide capital assistance to developing countries with a special focus on the least developed countries. The audit, which was requested by the incoming UNCDF Executive Secretary, assessed the organizational structure and staffing of the Fund, the design of its operations, monitoring, oversight, finance and administration, and concluded that all areas, except finance and administration, required significant improvement. OAI recommended strengthening the organizational structure by streamlining the regional structure, function and reporting lines, extending change management to the country level, formalizing the delegation of authority in line with the internal control framework, resolving issues of sub-optimal implementation of Atlas, strengthening management of loans and advances, and monitoring project audits and evaluations. UNCDF agreed with all 24 recommendations and reported that 13 were fully implemented in 2009, while the remaining 11 were in the process of implementation according to their 2010 deadlines. OAI will validate this as a planned follow-up audit.

(e) *Internal control framework for UNDP offices* (December 2009). OAI performed a desk review of the internal control framework and compared it with frameworks used by other international organizations. OAI recommended that the framework explicitly link all existing major control processes, planning and strategy setting, programme management, and human resources management to internal control, and that strong monitoring and reporting on internal control activities be established. By 31 December 2009, the two recommendations were in the process of implementation. Subsequently, UNDP drafted a revised internal control framework, which incorporates the results of the review.

B. Country office audits

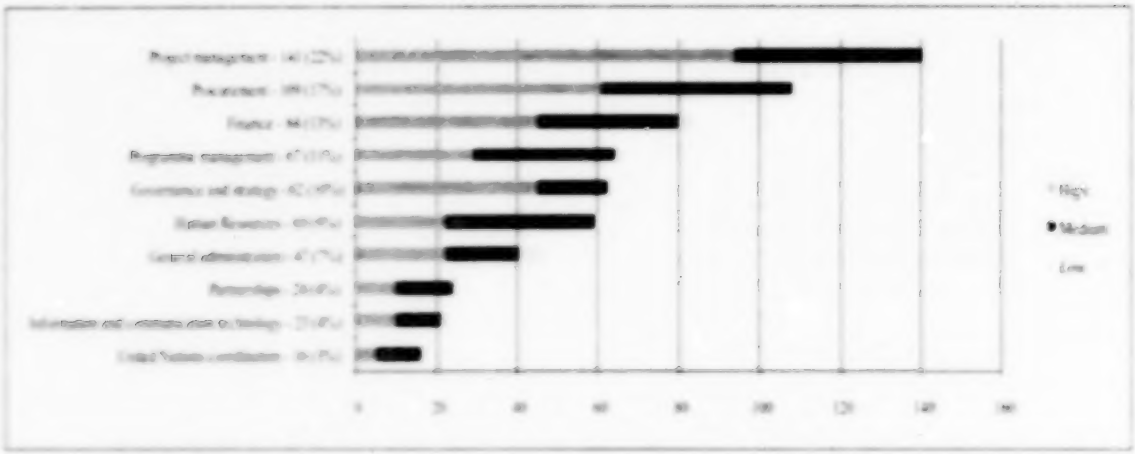
25. The internal audit of a country office generally covers activities in the following areas: governance and strategic management, United Nations system coordination (development activities), office of the resident coordinator, and role of UNDP in the 'one United Nations' approach; programme activities (programme management, partnerships and resource mobilization, project management, advances to NGO/UNDP projects and operations (human resources, finance, procurement, information and communications technology, general administration, and safety and security). In one case, the scope of the country office audit had to be substantially limited as the audit team leader with programme expertise was not granted a visa.

26. As part of the OAI strategy to ensure its plans are consistent with organizational goals, country office audits include cross-cutting themes (or focus areas) that are reviewed extensively based on standardized audit procedures; results thereof are consolidated and re-analysed from a corporate-level perspective. In 2009, these focus areas were procurement, safety and security, and advances to NGO/UNDP projects.

Key findings and recurring audit issues

27. The 65 country office audit reports issued in 2009 contained 433 recommendations, of which 160 were ranked high priority, which meant action was considered important to ensure UNDP was not exposed to high risks. Failure to take action could result in major consequences and issues. The majority of audit issues were identified in the areas of (a) project management, (b) procurement, (c) finance, and (d) programme management. Together, these represented 67 per cent of all audit recommendations issued (see figure 3). The OAI focus on the three focus areas increased the number of issues noted in project management, procurement, and general administration.

Figure 3. Distribution and prioritization of audit recommendations in 2009 reports
(total recommendations: 633)



Cross-cutting audit issues

28. Three consolidated reports were issued during the year, one each on procurement, safety and security, and advances to NGO/NIM projects, based on audits of 21 country offices (for procurement and safety and security) and 14 country offices (for advances to NGO/NIM projects) during the 12-month period from mid-2008 to mid-2009. In most offices audited, these three audit areas were rated 'satisfactory'. Nonetheless, certain key issues, albeit not recurring, arising from the audits are presented below. Based on OAI follow-up after the audit, corrective actions have already been initiated by the management concerned to address the following issues:

(a) *Procurement*. While audits showed that the procurement function was managed satisfactorily in 53 per cent of 21 offices, they also identified areas for further improvement in procurement committee review processes (13 offices), compliance with contract award guidelines (nine offices), procurement planning (seven offices), and the bidding process (seven offices);

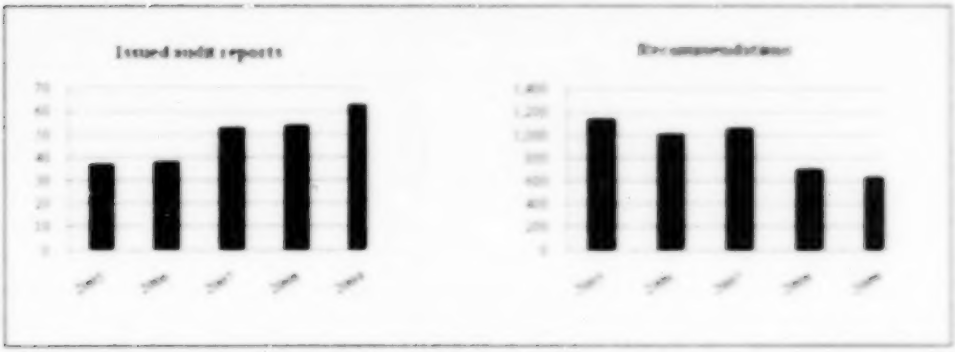
(b) *Safety and security*. While the audits showed that safety and security procedures were adequate in 67 per cent of 21 offices, they also identified issues such as incomplete mandatory security training (seven offices), and noncompliance with minimum operating security standards (four offices);

(c) *NGO/NIM advances*. While the audits showed that controls relating to NGO/NIM advances were functioning well in 64 per cent of 14 offices, there were advances overdue for more than six months noted in six offices.

Multi-year trends in audit issues

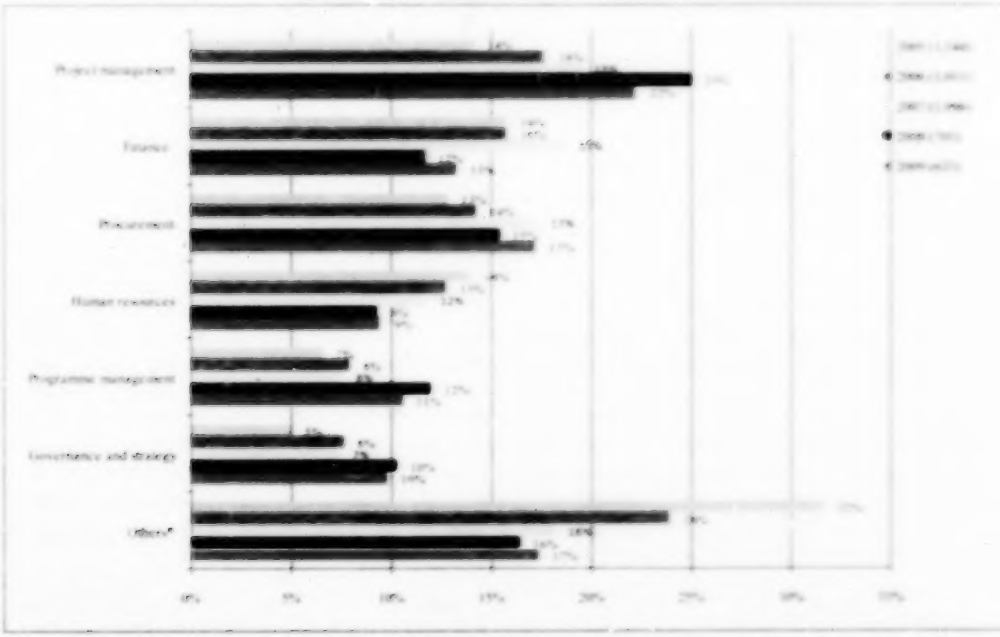
29. Over the five-year period from 2005 to 2009, the number of country office audit reports had increased significantly. From 37 and 38 in 2005 and 2006, to 53 and 54 in 2007 and 2008, the number of country office audit reports further increased to 63 in 2009. However, the number of audit issues and corresponding recommendations was not directly reflective of the number of audits completed. While the number of audit recommendations in 2005, 2006 and 2007 exceeded 1,000 per year, the number declined substantially in 2008 due to deliberate efforts by OAI to make the audit reports more focused on matters considered most significant for the country office and/or UNDP in general. Hence, in 2008, there were only 701 recommendations compared to 1,066 in 2007. The number of recommendations declined further in 2009, to 633, despite the increase in the number of audits completed – from 54 in 2008, to 63 in 2009 (see figure 4).

Figure 4: Number of country office audits and audit recommendations for the five-year period from 2005 to 2009



30. When analysing audit issues, it is necessary to consider the number of recommendations issued in a particular audit area, as well as the relative significance of recommendations in an area to the total number of recommendations issued in a particular year. For the five-year period, as noted in the previous OAI annual reports (in addition to the current period), the majority of audit recommendations were in the areas of: (a) project management; (b) finance; (c) procurement; and (d) human resources, which in the aggregate comprised 61 per cent of the 4,555 recommendations issued during the period. A total of 864, 706, 692 and 539 recommendations, respectively, were issued in these four areas during the period. The project management area stood out in 2008 and 2009 in terms of the percentage of total recommendations issued (see figure 5).

Figure 5: Trend of audit issues from 2005 to 2009
(based on percentage of total recommendations per year)



*Includes the following audit areas: general administration, information and communications technology, partnerships and resource mobilization, United Nations coordination.

31. Analysing these four major areas showed that, during the five-year period from 2005 to 2009 (see figure 5), project management issues reached a peak in 2008, comprising as much as 25 per cent of total recommendations that year, but declined in 2009, to 22 per cent. Finance issues reached a peak in 2007 at 19 per cent of total recommendations, but declined sharply in 2008 to 12 per cent, then increased slightly in 2009 to 13 per cent, which was still below the 2005 level of 16 per cent. Procurement issues fluctuated – the 2 per cent increase from 2008 to 2009 can be attributed to the increased focus of OAI in this area, which included designating procurement as a thrust area in country office audits. Human resources issues have continually decreased, from 14 per cent in 2005, to 9 per cent in 2008 and 2009. The statistics also reflected the extent of focus by OAI on these areas, as they were considered key areas for proper management of resources.

32. The nature of the findings in each of the areas varied from office to office, but a number of findings appeared to be re-occurring for more than two years, including:

(a) Project management – Absence or incomplete implementation of annual monitoring plans; non-use or ineffective use of the enterprise resource planning system (Atlas) as a project monitoring tool; insufficient frequency of, and/or reporting on, field visits; deficiencies in project implementation resulting from poor or ineffective project design, appraisal and/or approval mechanisms;

(b) Finance – Weaknesses in bank reconciliation processes; and incomplete supporting documentation for payments;

(c) Procurement – Ineffectiveness of contracts, assets and procurement committees/advisory committee on procurement; and weak country office procurement management capacity;

(d) Human resources – Weakness in the recruitment of personnel, with processes lacking transparency and competitiveness; and inadequate documentation to support the recruitment process.

33. Audits showed that the main causes of issues in the four major areas included the lack of guidance or supervision, or the lack of corporate policies or procedures. It should be noted, however, that OAI follow-up procedures (see chapter VII) showed that appropriate actions have already been taken, or are being taken, by management to address the aforementioned audit issues.

Audit of projects financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria

34. During 2009, projects financed by the Global Fund and managed by UNDP as principal recipient received increased audit attention. OAI issued four reports pertaining to two project audits in Africa and two in the Arab States. The majority of audit issues were identified in the programme management and procurement areas, which together comprised 68 per cent of the 46 recommendations emanating from these four audits. Regarding programme management, the critical issue was poor monitoring and evaluation systems. OAI recommended measures, such as recruiting appropriately qualified and trained staff, ensuring submission of required reports by sub-recipients, ensuring approval of the monitoring and evaluation plan, and conducting regular field visits and systematic follow-up. A critical issue related to procurement was the delay in procuring non-standard medicines against opportunistic infections, as well as antiretroviral treatments (drugs used to treat HIV-infected individuals to reduce the effects of the virus), anti-malarial drugs, surgical items, HIV test kits, and bed nets. The delay in procurement caused temporary stock depletion. OAI recommended measures, such as strengthening the internal capacity of the procurement team, effective planning to ensure adequate reserve stock, and implementing a reliable drug information system. OAI follow-up procedures showed that appropriate management actions have been taken (or are being taken) to address the audit issues, including corporate measures to strengthen and improve the effectiveness of UNDP procurement activities.

35. In planning and conducting audits of Global Fund projects, OAI cooperated and coordinated its work with the Office of the Inspector General (OIG) of the Global Fund. For one major country programme, OAI and the OIG conducted concurrent audit missions, with OAI covering UNDP activities (as principal recipient) and OIG covering all other aspects of the Global Fund grants.

Audit of projects directly implemented by UNDP

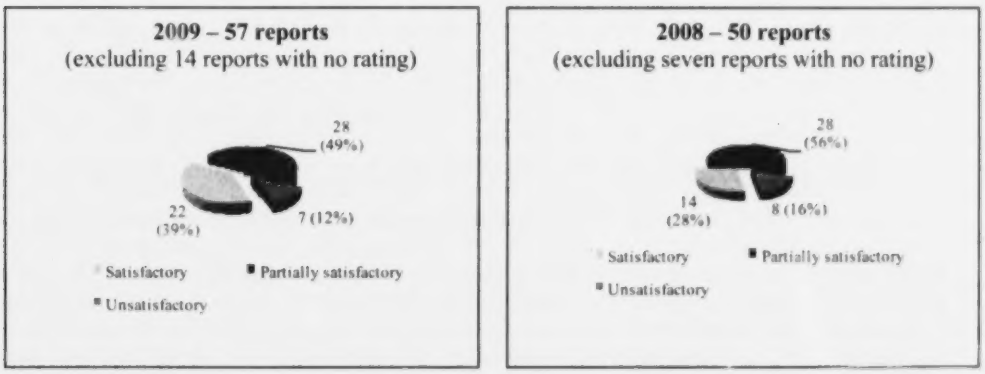
36. A total of 11 audit reports were issued dealing with DIM projects managed by country offices in Asia and the Pacific, the Arab States, and Latin America and the Caribbean regions. A majority of audit issues related to project management, finance, and programme management, which comprised 64 per cent of the 173 recommendations resulting from those 11 audits. In project management, there were recurrent issues of non-compliance with the UNDP programme and operations policies and procedures, memorandums of understanding, or cooperative agreements. There were various issues relating to finance and programme management, which were generally non-recurring. OAI follow-up procedures showed that appropriate management actions have been taken (or are being taken) to address these audit issues.

VI. Audit ratings

37. At the conclusion of each audit, OAI generally assigns an overall audit rating in terms of its assessment of governance, risk management, and the internal control processes. Special audits, follow-up audits, and consolidated reports on thrust areas do not normally lend themselves to an overall audit rating, as they are focused on specific areas with restricted audit objectives. In 2009, 14 reports did not contain ratings. Of the remaining 57 reports, seven (or 12 per cent) contained an 'unsatisfactory' rating, comprising five audits at country office level and two at headquarters (see figure 6).

38. Compared to 2008, the number of headquarters and country office audits with 'unsatisfactory' ratings decreased from 16 to 12 per cent. Similarly, those with 'partially satisfactory' rating decreased from 56 to 49 per cent. Audits with a 'satisfactory' rating increased significantly from 28 to 39 per cent.

Figure 6. Number of audit reports issued in 2009 and 2008, by audit rating



39. To closely monitor country offices and headquarters units rated 'unsatisfactory', OAI conducts on-site follow-up audits in addition to periodic desk reviews of the implementation status of audit recommendations. OAI has included follow-up or comprehensive audits of all seven offices rated 'unsatisfactory' in 2009 in its 2010 audit workplan.

40. After three years of implementing the harmonized audit rating system, which was introduced in January 2007, the internal audit services of UNDP, UNFPA, UNOPS, United Nations Children's Fund (UNICEF), and World Food Programme (WFP) revisited the existing definitions and agreed on a revision, which is expected to contribute to more consistency in the application of the audit ratings, including a clearer focus on the audited entity.

41. The revised definitions, effective starting 1 January 2010, are:

(a) 'Satisfactory' – Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity;

(b) 'Partially satisfactory' – Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity;

(c) 'Unsatisfactory' – Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

VII. Follow-up on audit recommendations

42. In view of the continuing concern of the Executive Board and UNDP senior management over long outstanding recommendations, particularly those 18 months or older, OAI stepped up its efforts in monitoring actions taken by audited offices to implement recommendations. In addition to the usual semi-annual desk reviews on the implementation status and on-site follow-up audits of those with 'unsatisfactory' ratings, a number of ad hoc desk reviews were conducted in 2009. The efforts resulted in closer interaction with the offices and provision of OAI advisory services, as deemed necessary, to ensure that appropriate action was taken to implement the recommendations.

43. On-site follow-up audits generally showed significant progress of the office after the initial audit. Four of the eight offices rated 'unsatisfactory' in 2008 had fully implemented the audit recommendations by 31 December 2009, and the implementation rate for the remaining four offices ranged from 75 to 96 per cent, indicating management responsiveness to audit recommendations. As of 31 December 2009, the overall combined implementation rate for headquarters and country offices audits was 90 per cent. Based on experience, 100 per cent implementation is achieved within an average of 18 months after the audit report has been issued.

44. At the end of 2009, there were a total of 56 recommendations that remained unresolved for 18 months or more. Those 56 represent only 0.98 per cent of the total recommendations made from 1 January 2004 up to 30 September 2009. Of the 56 recommendations, 13 pertained to headquarters units and 43 to 21 country offices. Forty-four (or 78 per cent) of these 56 recommendations related to audit reports issued in 2007 and early 2008. Of the 56 recommendations, 30 (or 54 per cent) were ranked high priority. An in-depth review of the long outstanding high priority recommendations (see annex) showed that the reasons for full implementation delay were mainly due to factors external to the offices concerned, such as assistance from/involvement of headquarters units (27 per cent) and those completely outside UNDP (host Government, country situation, and other United Nations organizations), the latter comprising a combined 23 per cent. Another main reason was lack of financial or human resources (24 per cent). Other causes noted were slow implementation, or that actions taken did not produce the intended results (20 per cent), and a lack of (or inadequate) action by the offices concerned (6 per cent).

45. One important issue was recovery of outstanding Government contribution to local office costs (GLOC). The arrangement for collection from host Governments of their contribution towards the costs of UNDP country offices is stipulated in UNDP financial regulation 9.01. This covers negotiations and the possibility of partial waivers of contributions. In the case of the latter, the authority to grant partial waivers by the Administrator is exercised in consultation with the Board. There were initially eight recommendations for collection of outstanding GLOC payments by country offices, some of which dated back to 2004. Four recommendations were subsequently closed, as the regional bureau concerned pointed out that the issue was beyond the control of the country offices concerned, that past efforts at collection failed, and that further attempts would not generate positive results for the foreseeable future, given the financial difficulties of the countries concerned. While one was implemented, three cases are still on the list of long outstanding

recommendations (see annex). OAI has brought to the attention of senior management the need for a corporate policy regarding long outstanding GLOC contributions where collection is unlikely. In the view of OAI, such a policy needs to take into account international public sector accounting standards (IPSAS), which requires that financial assets determined to be impaired must be appropriately disclosed. The Bureau of Management has confirmed that a policy review of GLOC will be conducted, which will include IPSAS considerations.

VIII. Advisory services

46. OAI continued to advise all levels of UNDP management at headquarters, regional centres, and country offices. For example, it reviewed and advised management on audit and investigation clauses in agreements, such as multi-donor agreements, cost-sharing agreements, letters of agreement, and letters of understanding between UNDP and development partners. OAI also provided guidance to country offices on verification missions carried out by representatives of the European Commission in accordance with the financial and administrative framework agreement.

IX. Audits for the United Nations Development Fund for Women

47. The December 2008 agreement between OAI and UNIFEM on the provision of internal audit and investigation services includes establishing an OAI auditor post funded by UNIFEM. Accordingly, the auditor dedicated to UNIFEM audits, joined the organization in August 2009. This new position, based in New York, will ensure adequate audit coverage of UNIFEM activities, at its headquarters and in the field.

48. Two reports were issued in 2009 relating to the audits of the sub-regional programme offices for Central Africa, and for East and Southeast Asia. The two offices recorded programme and management expenditures totalling $19.7 million. The audits reviewed areas of governance and strategic management, programme activities (programme management, partnership and resource mobilization, and project management) and operations (human resources, finance, procurement, information and communication technology, general administration, and UNDP support to UNIFEM operations). The audits resulted in a 'satisfactory' rating for one office, and a 'partially satisfactory' rating for the other office.

X. Review of audits of projects executed by non-governmental organizations and/or national governments

49. In 2009, OAI applied the same risk assessment methodology initiated in 2008 for selecting the NGO/NIM projects to be audited. The 2009 audits, performed by auditors appointed by the country offices, covered expenditures incurred in the fiscal year 1 January to 31 December 2008 on NGO/NIM projects. A total of 1,811 audit reports for fiscal year 2008, from 127 country offices, were expected to be received in 2009 and total $1.8 billion[3], compared to 1,765 reports covering $2 billion from 122 country offices for fiscal year 2007.

50. As of 31 December 2009, OAI received 1,748 (97 per cent) of the audit reports required, which encompassed project expenditures totalling $1.9 billion (70 per cent). Considering the 31 May submission deadline, 82 per cent were received as of 30 June 2009, versus 87 per cent as of 30 June 2008. Three cases of non-submission by offices were referred to senior management.

51. In 2009, with assistance from the UNDP Office of Information Systems and Technology, OAI introduced significant improvements to its web-based comprehensive audit report and

[3] Seventy-seven per cent pertained to projects implemented by national institutions, 3 per cent were projects implemented by NGOs, and 20 per cent were projects implemented by UNDP but where either a national institution or an NGO was designated as a responsible party to deliver a number of the components of a project.

recommendation database system – known as 'CARDS'. All the NGO/NIM audit reports, related observations and action plans, and OAI review of the reports are now integrated into CARDS. This new system is expected to bring tangible improvements to the overall NGO/NIM audit process, as well as greater organizational effectiveness. In 2009, however, it was anticipated that the users would have to adjust to the change in processes, resulting in temporary delays.

52. OAI review of NGO/NIM audit reports cover four elements:

(a) *Audit opinion and net financial impact*. OAI measures the net financial impact of the audit qualifications as a percentage of the expenditure in the combined delivery reports.

(b) *Audit outcome*. OAI reviews the audit findings, including their risks, severity, and possible impact on the overall project management and implementation.

(c) *Audit scope*. OAI reviews the adequacy of audit coverage in audit reports of NGO/NIM projects based on the minimum requirements set out in the terms of reference of the auditors.

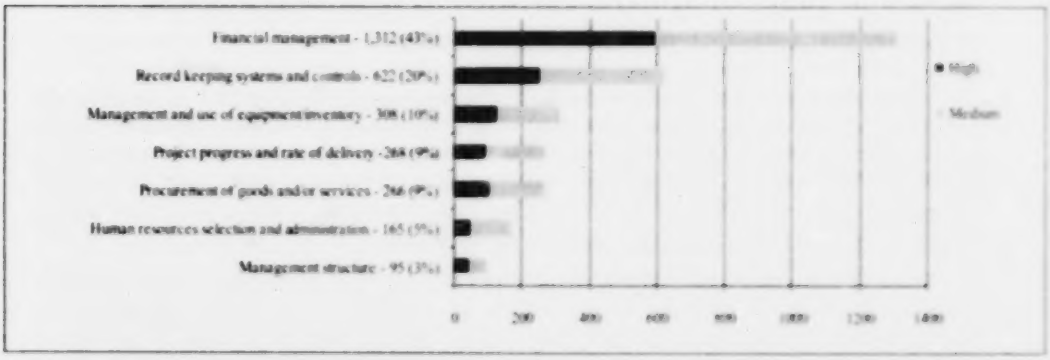
(d) *Audit administration*. OAI reviews how the audit was administered by the country office, in terms of efficiency and effectiveness.

53. The results of the review by OAI are summarized in review letters sent to the country offices, highlighting shortcomings and drawing attention to areas requiring immediate action. In 2009, OAI exceeded its target of issuing 75 per cent of the review letters by 30 September 2009. At 31 December 2009, review letters were issued for 124 (98 per cent) out of the 127 country offices. The three remaining review letters could not be issued on time as the offices concerned were not able to have the audits completed by the end of 2009.

Key NGO/NIM audit issues

54. OAI categorizes audit issues concerning NGO/NIM projects into seven areas. Out of the 1,748 audit reports received and reviewed in the context of the aforementioned four elements, OAI conducted a more in-depth review of $1.6 billion (84 per cent) of the audited expenditures and some 3,306 audit issues. The majority (60 per cent) of these issues were assessed to be of 'medium' priority and 69 per cent of the issues pertained to financial management and record-keeping systems and controls (see figure 7).

Figure 7. Distribution and prioritization of NGO/NIM audit issues for fiscal year 2008
(total recommendations: 3,036)



Audit opinions and net financial impact

55. Overall, the NGO/NIM auditors found the financial statements to be presented fairly, and thus issued an 'unqualified' opinion in respect of $1.8 billion (95 per cent) of the total $1.9 billion of audited expenditures. OAI analysed the reports with 'qualified' or 'adverse' opinions, or with a 'disclaimer', and quantified the direct financial impact of audit qualifications to be $9.5 million.

which is equivalent to 0.5 per cent of the total audited expenditures. This represented an improvement compared to the impact of audit qualifications in previous years: $14 million (0.7 per cent) for fiscal year 2007, and $11.6 million (0.7 per cent) for fiscal year 2006.

56. The audit qualifications in two country offices accounted for 48 per cent of the total net financial impact of $9.5 million. In one of the two offices, $2.1 million in expenditures for two projects could not be verified due to material differences between the documents made available to the auditors, and the expenditures recorded in the books. In the second country office, the audit of one project, with $2.5 million in expenditures, identified material discrepancies such as erroneous recording of expenditures and the absence of supporting documents, which resulted in a disclaimer of audit opinion.

Harmonized approach to cash transfers

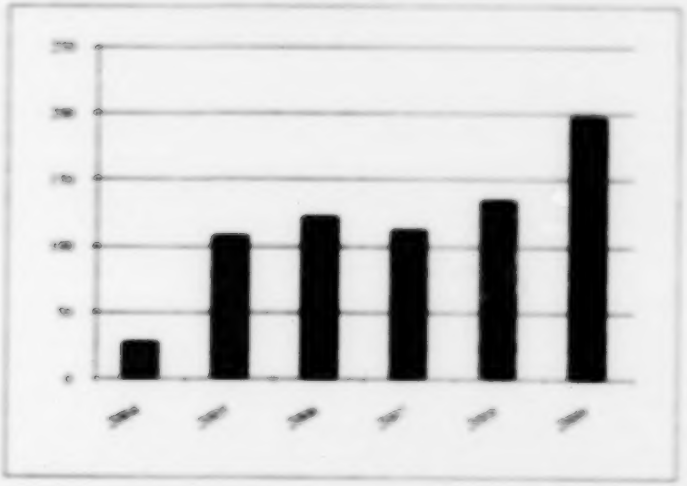
57. OAI reviewed the documentation submitted by country offices planning to move from the MAPNIM audit approach, to the harmonized approach to cash transfers (HACT) audit approach. Due to the growing importance of HACT, and its scope of application covering more than one organization, OAI agreed with the internal audit services of UNFPA, UNICEF and WFP on a framework for cooperation between the internal audit services of United Nations organizations in auditing the implementation of HACT at the country level, which includes coordination and sharing of information, audit approach, and scope. In November 2009, based on this framework, UNDP, UNFPA and UNICEF conducted a joint audit of HACT implementation in Vietnam.[4] Additional joint reviews of HACT implementation are planned for 2010.

XI. Investigations

58. Since the establishment of a dedicated UNDP investigation function in 2004, the number of complaints received by OAI has continuously increased (see figure 9). In particular, the steep increase seen between 2004 and 2005 was due to the opening of the investigations hotline (May 2005), which provided a confidential and easy way to report complaints of wrongdoing. There was another marked increase in 2008, which can be attributed mainly to the transfer of responsibility for investigating allegations of workplace harassment and abuse of authority from the Office of Human Resources to OAI. Another sharp and unexpected increase in complaints occurred in 2009 from 135 to 199 or more than 47 per cent (see figure 8). A detailed analysis of the unexpected growth in 2009 showed that this was due to varied reasons.

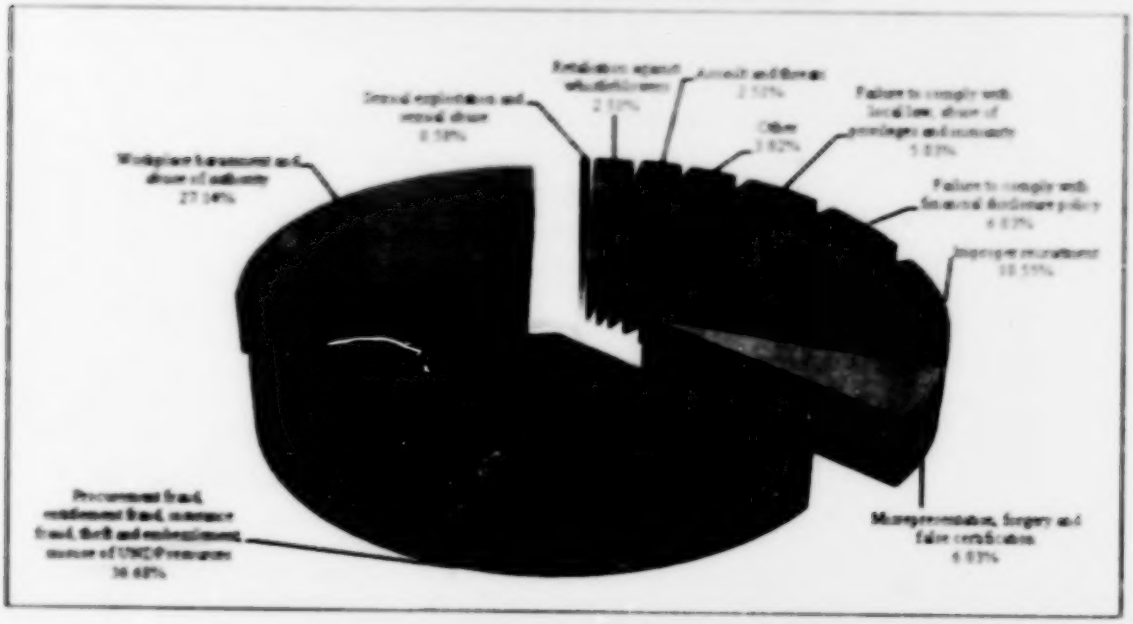
[4] The final report will be issued jointly by the three internal audit services involved.

Figure 8. Number of complaints received from 2004 to 2009



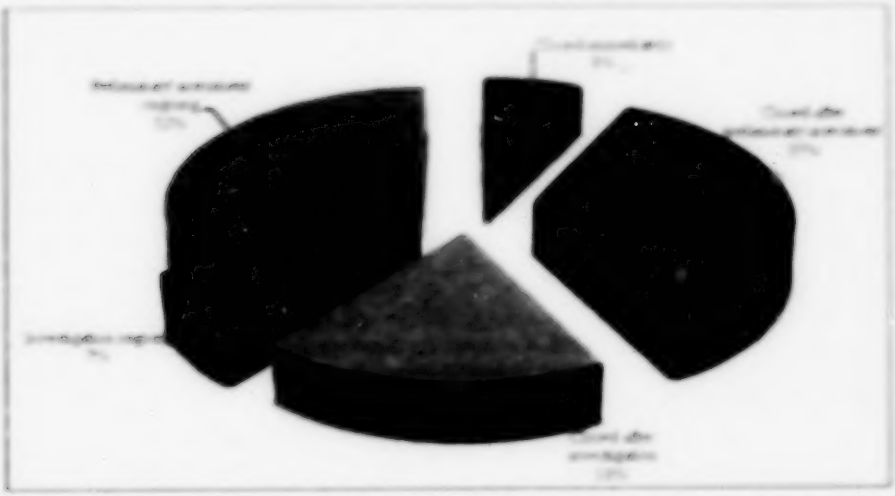
59. Of the 199 cases received in 2009, 73 (37 per cent) involved some type of financial irregularities (procurement fraud, entitlement fraud, insurance fraud, theft and embezzlement, and misuse of UNDP resources), followed by allegations of workplace harassment and abuse of authority (54 cases or 27 per cent), and allegations of improper recruitment and other staffing decisions (21 cases or 11 per cent). Allegations of retaliation against whistleblowers, which are investigated after the determination of the Ethics Office of a 'prima facie' case, constituted 3 per cent of the cases received in 2009. Other categories (misrepresentation, forgery and false certification, failure to comply with financial disclosure policy, failure to comply with local laws, abuse of privileges and immunities, assaults and threats, other) constituted the remaining 22 per cent (see figure 9).

Figure 9. Categories of complaints received in 2009



60. In addition to the 189 cases received in 2009, 63 open cases were carried forward from 2008, resulting in a total caseload of 282 in 2009. Of these 282 cases, 23 (8 per cent) were closed immediately, as they were clearly unfounded. A total of 99 (35 per cent) were closed after a preliminary assessment determined that no investigation was warranted. Fifty-two (18 per cent) were closed after full investigation, of which 38 (73 per cent of the 52) resulted in an investigation report, establishing evidence of wrongdoing. As of 31 December 2009, 89 cases (29 per cent of the total 282) were still undergoing preliminary assessment, while in 23 cases (7 per cent) an investigation was ongoing (see figure 10).

Figure 10: Caseload processed in 2009



61. Significant investigation cases that were referred to the Legal Support Office in 2009 for appropriate action were: (a) five cases of procurement fraud; (b) three cases of theft and embezzlement; (c) two cases of entitlements fraud; (d) two cases of insurance fraud; and (e) one case of sexual exploitation.

62. In addition to the drastic increase in the number of new complaints, the procedural standards for conducting investigations have been further strengthened, in response to the new system of administration of justice in the United Nations that became effective on 1 July 2009. The level of scrutiny by the newly established United Nations Dispute Tribunal is much higher and requires thorough documentation of all steps taken and all considerations given in the investigations process. The Tribunal may request investigative files, supplemental statements, and testimony from investigators years after the investigations.

63. As a consequence of a drastically increased caseload with resources remaining at the same level as in 2008, the open caseload continued to be large and there have been unavoidable delays in completing investigations in 2009. However, OAI is convinced that the quality of the investigative process and investigation reports is more important than ever, and cannot be sacrificed for the sake of expediency. To ensure a systematic and structured approach, OAI issued new investigation guidelines and is strengthening internal processes through standard operating procedures. OAI is also exploring other alternatives on how best to use limited investigation resources considering an ever increasing caseload.

VII. Overall conclusion and framework for the future

64. The results of the audits of headquarters units, country offices, functions, GEF projects, and Global Fund projects, provide a reasonable assurance to the Administrator and the Executive Board that governance, risk management, and internal control processes at UNDP are adequately established and functioning well. Where improvements were needed, OAI recommendations have been well received and expeditiously implemented by all levels of UNDP management.

65. OAI is facing various challenges in 2010 due to the overall budget reductions for the biennium 2010-2011, as well as continuing requests from donors for assurance on their projects, the very tight timeframe for completing reviews of NEX/NIM project audit reports, increasing demands from the Global Fund for mandatory annual audits of additional safeguard countries, more stringent requirements for investigative processes due to the new system of administration of justice, continuous increases in incoming complaints, and the number of serious fraud cases. Nevertheless, OAI stands ready to continue providing high-quality audit and investigation services.

66. In 2010, OAI will review more cross-cutting themes in its country office audits, such as IPSAS implementation, benefits and entitlements, procurement, travel, and IPSAS preparedness. It will also increase its focus on donor relations. In the medium-term, OAI expects to complete audit coverage of all headquarters bureaux and all major corporate functions. It will adopt a more structured and risk-based approach to auditing GEF projects. OAI will continue to emphasize quality rather than quantity in providing its services. To meet emerging risks and changing priorities in 2010, its workplan will remain flexible and adaptable. Overall, the three-year OAI strategy for 2008-2011 remains valid. It sets out the direction for OAI in providing UNDP with an effective source of independent and objective internal oversight to assist the organization in achieving its goals and objectives.